UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

Before Commissioners: Joseph T. Kelliher, Chairman;
Nora Mead Brownell, and Suedeen G. Kelly.

Northern Natural Gas Company Docket No. RP05-375-000

ORDER ACCEPTING TARIFF SHEETS

(Issued July 15, 2005)

1. On June 14, 2005, Northern Natural Gas Company (Northern) made a filing under section 4 of the Natural Gas Act (NGA) to revise the terms and conditions of its Firm Deferred Delivery (FDD) Service. This order accepts the tariff sheets listed in the Appendix, to be effective November 1, 2005, as proposed.

Details of Filing

2. Northern provides firm storage service pursuant to Rate Schedule FDD and firm transportation service pursuant to Rate Schedule FTS (Firm Throughput Service). Northern has filed revised tariff sheets to provide Rate Schedule FDD shippers additional flexibility to utilize their storage accounts and to modify the requirements that such shippers maintain a storage point as a Primary Receipt Point on their Firm Throughput Service Agreements. Northern revises its Rate Schedule FDD to simplify the requirements for the monthly minimum quantities during the injection period under all three storage options (Gas-In-Place (GIP), four-Step withdrawal and three-Step withdrawal) and the monthly minimum quantity for the withdrawal period under the GIP option.

3. The GIP option permits customers to inject and withdraw gas based on the amount of gas the shipper has in its account at a given time. There is also a four-step withdrawal option with injection and withdrawal rights that ratchet down three times during the withdrawal period and a three-step withdrawal option with firm injection and withdrawal rights that ratchet down twice during the withdrawal period. Customers have a Firm Deferred Cycle Quantity (cycle quantity) which represents the maximum amount of gas the customer can inject and withdraw from storage. The tariff sets requirements as to

how much of the cycle quantity customers can withdraw prior to February 1 and after April 30 and how much of the cycle quantity customers must inject prior to September 1. These requirements are currently set forth in monthly minimum Firm Deferred Quantities (FDQs) for each customer. The tariff also sets limits on the maximum amount customers can inject and withdraw on a daily basis.

4. Specifically, Northern revises section 2.B of its Rate Schedule FDD for the three storage options to eliminate the monthly minimum FDQs during the injection season and replace them with a single requirement that up to 66.5 percent of the contract cycle quantity may be injected prior to September 1 of each cycle year. The single 66.5 percent requirement is based on an aggregate of the current tariff requirement for monthly minimum injection quantities for September and October. Also, Northern eliminates the monthly minimum FDQs during the withdrawal season under the GIP option, and replaces it with a structure similar to the four-Step and three-Step withdrawal options. Under such structure, FDD shippers will be allowed to withdraw up to 85.6 percent of their cycle quantity by February 1 and up to 53.6 percent of their inventory may be carried to March 1 for withdrawal thereafter. Northern contends that these percentages are calculated using the current tariff requirement for monthly minimum requirements.

5. In addition, Northern adds May to the withdrawal season, whereby shippers can utilize their FDD account on an interruptible basis in May, i.e., injections and withdrawals will be scheduled with an interruptible priority. Northern states that shippers will be assessed the authorized overrun charge, as provided in section 6 of the Rate Schedule FDD on Sheet No. 140, for such service. The addition of May to the cycle year will also mean that the annual rollover fee will be applicable to the FDD account quantities as of May 31 each year, rather than April 30.

6. Northern also eliminates the injection and withdrawal charges currently applicable to the rollover quantities when the storage balance is rolled over to the next cycle period. Northern contends that this reduces the cost of rolling over FDD quantities from one season to the next. In addition, to recognize that FDD shipper contract cycle quantities may not be the same from one cycle year to the next, Northern revises section 3 of the Rate Schedule FDD on Sheet No. 138 to state that the rollover quantity cannot exceed the contract cycle quantity for the next cycle year.

7. Northern revises Sheet Nos. 442 and 442A to reflect the proposed changes above in the FDD form of Service Agreement, particularly Appendix A. Northern states that these revisions provide the FDD shippers with additional options to use their storage accounts and reduce the cost to FDD shippers that roll over their account balances.

8. Northern revises section 6 of its Rate Schedule FDD on Sheet No. 141 to (1) lower the amount of Maximum Daily Quantity (MDQ) that shippers must assign as a primary

receipt point on their FTS Agreements by changing the amount required from the lowest daily maximum withdrawal quantity at the end of March to the lowest daily maximum withdrawal quantity at the end of the firm withdrawal period, i.e., April, and (2) provide that if an FDD shipper does not use its FTS Service Agreement to transport its FDD volumes, it will not be required to have a storage point as a Primary Receipt Point. However, that shipper will be required to provide Northern with an affidavit stating that it will not use its FTS Service Agreement to transport its FDD volumes. In the event such shipper subsequently decides to transport its FDD volumes on its FTS Service Agreement, it would be necessary to amend its FTS Service Agreement within 30 days of notice from Northern to add a storage point as a Primary Receipt Point with an MDQ equal to the shipper's lowest daily maximum withdrawal quantity during the withdrawal period. If the amendment is not completed within the required 30-day period, Northern would tender an amendment to the shipper with the required storage point addition and required volume that would be deemed approved. To balance the shipper's total receipt point MDQ, the primary receipt point MDQ will be reduced pro rata at the other market area receipt points by an amount equal to the increase in the storage point. Northern states that a shipper having multiple FTS Service Agreements will be allowed to divide the obligation to have an MDQ equal to the lowest daily maximum withdrawal quantity during the withdrawal period among the agreements.

9. Northern contends that these revisions maintain the original purpose of this tariff provision, which was to require Local Distribution Companies (LDCs) that use the FDD service to meet their swing requirements during peak periods to assign some minimal FTS Service Agreement receipt point MDQ to FDD service. Northern also contends that the proposed revisions recognize that certain firm transportation shippers may not use their firm transportation agreements for storage injections and withdrawals associated with their FDD Agreements and therefore it is not appropriate to require them to assign primary receipt point MDQ to a storage point. Northern states that it reviewed the firm transportation contracts held by FDD shippers to see the differences, if any, between the amount of MDQ the FDD shippers currently have assigned to a storage point as a primary receipt point and the MDQ that will be assigned under the new tariff requirement. Northern submits that under the proposal some FDD shippers will have an excess amount of primary receipt point MDQ assigned to a storage point and some will have less than the required amount.

10. Northern states that following approval by the Commission, it proposes to conduct a 30-day open season during which FDD shippers will be allowed to adjust receipt point quantities to comply with the new tariff provision, or provide an affidavit stating they do not plan to use their firm transportation agreements for storage injections and withdrawals associated with their FDD Agreements. Northern contends that the open season will allow FDD shippers that may want to reduce their primary receipt point MDQ

at a storage point to realign MDQ to other non-storage receipt points being simultaneously relinquished by other FDD shippers in order to increase their MDQ at a storage point. Northern also contends that the FDD shippers adding MDQs at the storage point will not, however, be allowed to reduce primary receipt point MDQs at points where such MDQ is subject to an operational flow order. Northern submits that this open season will allow FDD shippers to comply with the tariff provisions in a non-discriminatory and objective manner. Northern further submits that subsequent to the open season and adjustment of receipt point quantities among FDD shipper, any resulting available receipt point capacity will be posted on Northern's web site in compliance with the Commission's regulations.

Notice, Protests, Comments

11. Notice of Northern's filing was issued on June 16, 2005. Interventions and protests were due as provided in section 154.210 of the Commission's regulations, 18 C.F.R.§154.210 (2005). Pursuant to rule 214, 18 C.F.R. § 385.214, all timely filed motions to intervene and any motions to intervene out-of-time filed before the issuance date of this order are granted. Granting late intervention at this stage of the proceeding will not disrupt this proceeding or place additional burdens on existing parties. Intervenors filed a protest and comments as discussed below. On July 1, 2005, Northern filed an answer. The Commission will accept Northern's answer as it provides relevant information that leads to a more complete and accurate record.[1]

12. Aquila Inc. d/b/a Aquila Networks (Aquila) and Metropolitan Utilities District of Omaha (M.U.D.) filed comments in support of Northern's proposal.

13. The Northern Municipal Distributors Group (NMDG) and each of its individual members[2] and the Midwest Region Gas Task Force Association (MRGTF) and each of its individual members[3] (collectively, NMDG/MRGTF) protest the filing. Generally they

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[1] 18 C.F.R. § 213(a)(2) (2005); Northern Natural Gas Co., 85 FERC ¶ 61,223 at 61,915 (1998).

[2] NMDG is composed of the following Iowa municipal-distributor customers of Northern: Cascade, Cedar Falls; Coon Rapids; Emmetsburg; Gilmore City; Graettinger; Guthrie Center, Harlan; Hawarden; Lake Park; Manilla; Manning; Osage; Preston; Remsen; Rock Rapids; Rolfe; Sabula; Sac City; Sanborn; Sioux Center; Tipton; Waukee; West Bend; Whittemore; and Woodbine.

request the Commission to reject the receipt point proposals and to require Northern to provide additional information concerning its storage proposals.

14. Specifically, with regard to the receipt point proposals, NMDG/MRGTF state that the current tariff provisions are designed to prevent LDC shippers with FDD service from "double reserving" receipt point capacity in the Market Area to the detriment of non-FDD shippers. NMDG/MRGTF state the current tariff is appropriately structured and asks the Commission to require Northern to explain why the proposed changes are necessary. NMDG/MRGTF also assert that in the open season, in which FDD shippers can reduce their primary receipt point MDQ under their FTS agreement at a storage point and realign MDQ to other receipt points, it is unlikely that the MDQ reductions at primary points will equal the increases at storage points. NMDG/MRGTF ask the Commission to require Northern to explain how it will deal with this problem. NMDG/MRGTF also believe that non-FDD shippers should be able to compete for any additional capacity that is freed up at receipt points. Lastly, NMDG/MRGTF states they are also unclear how this proposal will impact interruptible, TFX, and other services and that Northern should be required to explain the impact on other services.

15. NMDG/MRGTF are concerned that the additional flexibility proposed for injections and withdrawals will adversely affect the scheduling of other services. They ask the Commission to direct Northern to address whether the proposed flexibility will impact scheduling of firm transportation, and if so, how. NMDG/MRGTF also ask the Commission to require Northern to provide an estimate of the impact on its revenues of eliminating the injection and withdrawal charges for rollover quantities and to make this estimate by applying its proposal to actual figures for at least two past periods. NMDG/MRGTF states that this information would permit them to determine whether the impact on revenues is significant and thus whether they can support this proposal. NMDG/MRGTF also state their understanding is that the currently existing FDD withdrawal and injection requirements are necessary to protect the integrity of the storage

[3] MRGTF is composed of the following municipal-distributor customers of Northern: Austin; Circle Pines; City of Duluth, Minnesota-Duluth Public Utilities; Hibbing; Hutchinson; New Ulm; Owatonna; Round Lake; Two Harbors; Virginia; and Westbrook, Minnesota; and Watertown, South Dakota. It is also composed of the following small, investor-owned local distribution customers of Northern: Community Utility Company; Great Plains Natural Gas Company; Midwest Natural Gas, Inc.; Northwest Natural Gas Company; Sheehan's Gas Company, Inc.; Superior Water Light & Power; St. Croix Valley Natural Gas, Wisconsin; and Peninsular Gas Company, Michigan.

fields. NMDG/MRGTF ask the Commission to require Northern to explain why its proposal will not detrimentally affect its operational integrity.

Northern's Answer

16. Northern filed an answer on July 1, 2005 addressing the issues raised by NMDG/MRGTF demonstrating that Northern's proposed changes do not adversely affect the rights of existing shippers and will provide benefits to FDD shippers.

17. Northern claims that its proposed revisions do not adversely affect the scheduling of other services. Northern states that there is no merit to NMDG/MRGTF's allegation that Northern's filing could impact the scheduling of firm transportation services. Northern contends that its "proposed modifications to its FDD storage service affect *storage* parameters and have no impact on the scheduling of *transportation* services on Northern."[4]

18. Northern declares that the impact of its proposed revision with respect to rollover quantities on revenues is de minimis. Northern states that contrary to NMDG/MRGTF's assertion, Northern is not proposing to reduce FDD rates outside of a rate case or change the injection and withdrawal rates it currently charges. Rather, Northern is only changing the applicability of these charges. Northern submits that "currently Northern charges a firm injection and withdrawal rate as well as a rollover fee when an FDD shipper rolls over storage quantities to the next cycle period."[5] However, Northern states, when a rollover occurs, an FDD shipper is not physically engaged in either injecting or withdrawing storage quantities. Northern states "[t]hose quantities are simply held as inventory for the next cycle year. Therefore Northern proposed to remove the applicability of the firm injection and withdrawal charges to rollover quantities." Northern also submits that "in response to NMDG/MRGTF's request, FDD Shippers have rolled over an average of 0.3 Bcf over the past two years, which resulted in average annual revenue of approximately $8,900."[6] Northern states that thus, the impact of Northern's proposal with respect to rollover quantities is de minimis.

19. Northern states that its proposed modifications do not negatively impact Northern's storage operation or alter its ability to provide firm transportation service.

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[4] Northern Answer at 4.

[5] *Id.* at 4-5.

[6] *Id.* at 5.

Northern contends that its proposal to add May as an interruptible withdrawal month merely provides equality between storage service under the FDD Rate Schedule and service under the Interruptible Deferred Delivery (IDD) Rate Schedule, which has been available to IDD shippers during the month of May. Northern asserts that its proposal simply provides FDD shippers with the same right to interruptible service during May that IDD shippers have. Northern claims that its filing is not unlike previous filings made by Northern where it has modified existing storage service based on actual experience.[7] In addition, Northern also claims that Northern's proposal to change the applicability of the annual rollover fees from the end of April to the end of May does not raise operational issues. Northern further claims that FDD shippers still have an incentive to reduce their storage quantities at the end of the withdrawal period in order to avoid the rollover fee. Northern maintains that its proposed modifications in no way take away existing flexibility from transportation or storage shippers or affect the integrity of its storage operations, but the proposed modifications provide shippers with additional flexibility without negatively impacting Northern's storage operation.

20. Northern states that NMDG/MRGTF allege that Northern's proposed modifications to the FTS receipt point parameters for FDD service are the "more problematic" aspect of Northern's filing and claim that Northern provides "no compelling reason for proposing the changes at this time." Northern submits that its transmittal letter states that Northern's proposed revisions maintain the original intent of Northern's tariff. Northern also states that its proposed modifications recognize that certain FTS shippers may no longer use their FTS Agreements for storage injections and withdrawals under FDD service.

21. Northern states that its proposal corrects an existing inequity between the GIP and the four- and three-step service options under FDD service with respect to withdrawal quantities. Northern submits that under the GIP option, the minimum March GIP withdrawal quantity is in essence equal to the April withdrawal quantity. Northern also submits that this is the not the case under the four-step and three-step FDD storage options where the withdrawal quantity under each of these options is fixed for the month and the March withdrawal quantity is different from the withdrawal quantity for April. Northern asserts that its filing eliminates this inequity by adding language which provides that the amount of MDQ that must be assigned as a primary receipt point on the FDD

[7] Northern cites *Northern Natural Gas Co.*, 77 FERC ¶ 61,132 (1996) (addition of the four-step and three-step options under the FDD Rate Schedule) and Letter Order of May 29, 1997 in Docket No. RP97-337-000 (increase of cycle quantity under the FDD Rate Schedule).

shipper's FTS Service Agreements is the lowest daily maximum withdrawal quantity at the end of the firm withdrawal period, i.e., April.

22. Northern states that NMDG/MRGTF's criticism of Northern's proposed open season procedure is completely baseless since this open season is not intended for trading receipt points and quantities such that all participating shippers' receipt points and quantities are balanced at the end of the open season. Northern declares that "[t]he open season approach provides all impacted FDD and firm throughput shippers an opportunity to realign their receipt points at the same time as part of a common open season. Thereafter, any remaining capacity will be available to other shippers."[8] Northern submits that holding an open season provides an objective means to accomplish the realignment as well as market transparency. Northern further submits that its proposed open season approach results in an efficient allocation of capacity, consistent with Commission policy.

Discussion

23. We find that Northern's storage proposals provide FDD shippers with additional flexibility to utilize their storage accounts and to reduce costs to FDD shippers that roll over their account balances. The Commission denies NMDG/MRGTF's request to reject Northern's receipt point proposals and to provide additional information. The Commission finds that Northern's answer addresses the concerns raised by NMDG/MRGTF. Based on Northern's answer, the Commission agrees that Northern's proposal would not likely result in scheduling, transmission, or operational problems and that the revenues forgone are de minimis. It also indicates that the open season is intended to result only in a realignment and that any excess of receipt point capacity will be made available to all shippers. Therefore, the Commission accepts Northern's storage proposals, as proposed.

Waivers

24. The Commission grants Northern's request for waiver of section 154.207, 18 C.F.R. (2005), which does not permit filing a change in a tariff more than 60 days prior to the proposed effective date. Good cause exists for the waiver as Northern states the additional time is needed to design and implement computer system changes to accommodate the changes to its storage provisions.

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[8] Northern's Answer at 8.

25. Northern asks the Commission to waive any regulations necessary for it to hold an open season only among FDD shippers.[9] Northern states that under its proposal, some FDD shippers will have an excess amount of primary receipt point MDQ assigned to a storage point and some will have less than the required amount. It also states that in the open season, FDD shippers that want to reduce their primary receipt point MDQ at a storage point may want to realign MDQ to other receipt points being simultaneously relinquished by other FDD shippers who must increase their MDQ at a storage point. The Commission will grant the necessary waivers. The realignment of capacity will enable the FDD shippers to comply with the new tariff provisions that apply to them. In addition, at non-storage points, only capacity already committed to FDD shippers will be reallocated to FDD shippers. In addition, Northern states that subsequent to the open season and adjustment of receipt point quantities among FDD shippers, any resulting available receipt point capacity will be posted on Northern's web site in compliance with the Commission's regulations. Under these circumstances, the Commission finds it is reasonable to hold the open season only for FDD shippers.

The Commission orders:

The tariff sheets listed in the Appendix are accepted, to be effective November 1, 2005, as proposed.

By the Commission.

(S E A L)

Linda Mitry,
Deputy Secretary.

[9] Section 4 of the NGA and the Commission's regulations require non-discriminatory access to transportation service. 18 C.F.R. § 284.7(b) (2005).

APPENDIX

Northern Natural Gas Company
FERC Gas Tariff, Fifth Revised Volume No. 1

***Tariff Sheets accepted effective November 1, 2005*:**

Third Revised Sheet No. 135A
Third Revised Sheet No. 135B
Third Revised Sheet No. 135C
Third Revised Sheet No. 138
Fifth Revised Sheet No. 141
Third Revised Sheet No. 442
First Revised Sheet No. 442A